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CONTROL OF WEALTH AND ECONOMIC LIFE— DISCUSSION

FRANK A. FETTER.—The two papers to which we have just listened cover a wide field, ranging from the very origins of economic action to its ultimate results. The connection between the two papers may at first be difficult to see. However, they are both Jeremiads; they both indict our economic system for failure, on the one hand to secure a necessary measure of equality in the distribution of wealth, and on the other hand to satisfy the fundamental needs of human nature for the masses of men. Both papers alike declare that this failure appears at the two extremes of society, among the very rich and the very poor.

From another point of view, the indictment appears to be brought against contemporary economic thought, for its failure on the one hand to solve the problem of economic inequality, and on the other hand to recognize the complex and fundamental psychological nature of man. The reply to these accusations cannot be a simple one. It must in part be confession, in part extenuation and avoidance, and in part denial of the statement of facts and of the inferences drawn from them.

Are economists neglectful of questions of distribution and human welfare? The reply to this depends largely on one's conception of the true function of economics as a special discipline. Economics is far from being the whole of social philosophy. It is far from having the sole responsibility for the guidance of social action and social legislation. Its special field is the ascertainment of the facts, and the exact scientific analysis of the problems of value and price. The framing of a policy of social action is the work of the social philosopher and statesman, and involves considerations not merely of an economic nature, but legal, ethical, political, and religious as well. There is risk that in becoming a universal oracle, any social science will lose its intellectual poise and its judicial authority. This modesty of economics may seem inexplicable to some of our sister sciences, which are restrained by no such considerations. As an individual, as a man, and as a citizen, the economist, to be sure, is impelled to frame for himself an ideal of social action. Contemporary economists are not ignoring or neglecting the problems of human welfare. One has but to recall the subjects and to review the discussions in this Association for the past thirty years, and particularly in the last decade, to see how the thought of economists has taken practical, constructive, and concrete directions in such matters as the protection of labor, immigration, land policy, tariff legislation, and the development of democratic forms of taxation.

The first paper is, in the main, an attack on the doctrine of *laissez faire*. The writer implies that this doctrine still has some vitality, although he suggests that it began to lose its force a generation ago. True, but his chronology needs revision. I began the study of economics a generation ago, and I was taught then that *laissez faire*, as a doctrine, had long been dead. Indeed, looking back over the history of the past century, one may doubt whether any one has put faith in that doctrine excepting a little group of selfish interests whenever they wished to favor their own policies. As early as the thirties and forties of the last century, began in England that protective labor legislation which has spread to the ends of the earth in defiance of *laissez faire*. There was little evidence of *laissez faire* in the enormous grants of land and money by the public to railroads and other corporations in the United States from 1850 on. A thousand important public policies of the past half century are evidence that *laissez faire* has long been dead. But its image, like that of Guy Fawkes, is still brought out each year to be hung up in derision to make a sociological holiday.

The first paper devotes considerable time to an attack upon the theory of specific productivity as developed by John B. Clark. I yield to no one in my respect for Clark's theoretical work, considered as a whole, but this part of his theory I utterly rejected in a review of his work as early as 1901. Referring to his claim to present a "vindication of the existing distribution of incomes" I called this a *non-sequitur* from his economic analysis. I declared that Clark had not proved and could not prove by his analysis that, as he said, "there is assigned to every one what he has specifically produced." This judgment I believe to have reflected not only my own view but that of many economists at that time. My colleague, Professor Adriance, has more recently in a detailed and effective refutation given to the doctrine of specific productivity its *coup de grâce* (*Quarterly Journal of Economics*, Nov., 1914). It is true that various phrases with the flavor of specific productivity still linger in the textbooks, but the authors render to the doctrine a mere lip service. Certainly when such economists as Tausig and Seager, with their well-known social sympathy, speak of "specific productivity," they mean no justification of prevailing abuses, no ethical vindication of the existing inequality of incomes.

Of the other economic questions raised by the first paper, I will refer only to the confusion throughout of competition with lack of regulation. In a number of the examples cited, the evils are due not to competition but to monopoly, to a one-sided competition. Regulation is needed either to restore competition or to control combination and monopoly, not to suppress competition.

The first paper is filled with admirable ethical fervor and brings to us a message that it were well to heed. The theme of the second paper, the importance of a broader biological and psychological basis in our economic theory, deserves our respectful hearing, and in most respects our cordial acceptance. The economic man is dead, as dead as *laissez faire*. The motives in economic action are complex, and are derived from all the elements of man's complex nature. It is well to have presented in this interesting form the fruits of the behaviourist psychology. Doubtless we have not more than begun to realize the strength of the primitive impulses and instincts in man's nature; but these studies of the biologists and psychologists, and the newer volitional psychology, have already found their way into the economic literature and even into the more advanced general texts in economics. I attempted fifteen years ago to give some recognition to these ideas in the concept of psychic income. The thought in this is that in all problems of valuation the psychic element is of primary importance and the physical goods are but secondary. What a man or what a nation shall secure in welfare and happiness depends more on the spiritual state of man than it does on the physical objects over which he disposes. We need a new evaluation of industrial institutions in the light of these new doctrines. It may be admitted that many economists have been slow to recognize these truths. I, for one, welcome most heartily the work of Professor Parker and the main thesis of his paper.

I would in closing suggest a few difficulties, however, in some of the applications he makes of his psychological doctrine. He seeks by it to explain the temper and outbreaks of the mass of the members of the I. W. W., whom he defines in a recently published article (*Atlantic Monthly*, November, 1917) as members of the hobo class. Now every careful application of mental tests to the class of vagrant casual workers, tramps, and hobos, has revealed a large amount of mental defectiveness, extending even to feeble-mindedness. (Of course one need not assert this of the more capable leaders.) So far as this is true we have to do here with the expression not of normal psychology but of defective mentality. This, too, is a psychological explanation of some features of the problem, but is very different from the one which Professor Parker has suggested.

Again he seems to try to explain through these primitive psychological traits the outbreak of strikes, which in the West have been of late three times as numerous as before. But what light can the behaviourist psychology throw upon this increase of strikes? Has the primitive nature of these hobo workers become suddenly three times as strong as

before? That primitive nature is the fixed fact. Is not the explanation to be found in this case in some change in the environment? And there is one important change to which the author has made no reference, namely, the rapid rise of prices since 1914. It is a general truth of history that when prices rise rapidly, wages lag behind and strikes multiply. It is this fact that would seem to explain the recent wave of strikes much more simply, more prosaically and less dramatically, than is done by Professor Parker.

Finally, I would raise the question as to whether throughout this paper the author has not greatly exaggerated the biological elements in the analysis and underestimated the cultural or educational elements. Man in society from its primitive beginning has been a product of the union of biological and cultural influences. The untutored savage is a myth; nature-folk everywhere are rigorously tutored in the customs and traditions of their tribes. Their primitive biological nature is shaped and moulded from infancy by their social environment. Wherever this educational process in any nation or any class of society is omitted or slighted, there unsocial acts result. The explanation of these acts therefore is not so much in the biological nature which the law-breakers share with all law-abiding men, but in the lack of education—the education which they have failed to share. The rapid growth of our industrial institutions has given us many unsolved problems of education. We have not adequately developed institutions making for thrift in the new conditions, nor have we sufficiently safeguarded the mass of men against the accidents of industrial life. We have not provided for them the industrial training that would mould them into habits of industry, and give them the possibility of modest success. These facts help to explain many continuing evils in our industrial relations. In so far, therefore, Professor Parker's paper leaves a distorted impression. We decline to make again of economics a "dismal science." We refuse to believe that all our industrial ills are due to the innate wickedness of men and to our inevitable heritage of original sin.

WESLEY C. MITCHELL.—All of us who heard Professor Irving Fisher's presidential address before the American Association for Labor Legislation have doubtless been thinking of the similarity between the burden of his speech and what Professor Parker has said tonight. Circumstances have directed the attention of both men to the industrial unrest which is so prevalent at the present time. One in New Haven, the other in Seattle, have concluded that to understand and deal efficiently with existing conditions, we must recognize factors not dreamed

of in orthodox economic theory. Both men contend that modern conditions of factory production are seriously and needlessly exasperating to the mass of the wage earners. Disputes between employers and employed they attribute quite as much to this emotional state of irritation as to a desire to drive a better bargain. Man inherits, both tell us, certain instincts, and any life which thwarts the activities that these instincts prompt will inevitably breed discord.

All the men who have for years been declaring that economic theory must pay more intelligent attention to the problems of behavior will be encouraged at the coincidence of these two addresses. They will be particularly pleased by Professor Fisher's adhesion to this viewpoint, inasmuch as in the remarkable dissertation with which he began his scientific career he protested against the foisting of psychology upon economic theory. The same men will feel further encouraged by the welcome that Professor Fetter has just extended to Professor Parker's analysis. They may even hope that Professor Fetter will some day explain definitely what the "American Psychological School" has to do with psychology. I have been inclined to think that Professor Fisher was logically justified in protesting against the foisting of psychology upon the type of economic theory which was propounded in 1892. Similarly Professor A. C. Whitaker has protested against the mixing of psychology with the type of economic theory which Professor Fetter propounded in 1915. Will not Professor Fetter take early occasion to show just how the ingenious variant of orthodox economics with which his name is associated really connects with such a discussion as we have heard?

Concerning Professor Parker's paper I have but one remark to make, and that remark is by way rather of supplement than of criticism. Professor Parker has given us a list of some sixteen instincts which, as is usual nowadays, he conceives to be inherited from generation to generation without substantial change. So far as this factor in human behavior is concerned, he suggests that men at the present time are practically the same as men in the Stone Age. It is, however, groundedly believed that human behavior in modern Christendom differs materially from the behavior of cave men. Some factor in behavior has undergone *great* modifications, and that factor has not been mentioned in Professor Parker's analysis.

The omitted factor is of course the institutional factor. Under this term there are included the socially prevalent habits which in any given group standardize the behavior of individual members. For the social sciences this factor in behavior is of peculiar importance, since

it makes possible cumulative change. So far as these sciences can contribute to progress, they find their opportunity in purposive, intelligent control over institutions. One of the hopeful results of the present war is that it has demonstrated to all that our social economic institutions are far more malleable than had been supposed. Those men like Professor Parker and like Professor Fisher who see a conflict between man's inherited instincts and present living conditions are justified in pressing vigorously for such changes of our present institutions as will accord on the one hand with the original nature of man, and on the other hand with our present notions of productive efficiency.

E. C. HAYES.—It has been interesting to observe the difference of opinion between the two gentlemen who have discussed my paper as to what is or is not dead in economic theory.¹ From what appears in the economic textbooks and from what is heard in the utterances of economists one is forced to conclude that if the doctrine of *laissez faire* is dead it must be reckoned as one that "being dead yet speaketh." I am glad to find myself in agreement with the President of the American Economic Association, that if the doctrine of *laissez faire* is dead at least its obsequies still require to be decently celebrated.² One who says that the doctrine of *laissez faire* was dead a generation ago must mean that the first exceptions to the universality of its application had been admitted. It was still the reigning theory, although it resembled a king who had lost some outlying provinces, but who still asserted full authority over most of his realm and lustily resisted further encroachments, to say nothing of total dethronement.

If the time allowed I should gladly renew debate over the proposition which has been laid down this evening, that the way to rectify distribution is to maintain freedom of competition; and in doing so I should willingly begin at a point selected by my critic, namely, retail trade. The objection to present retail methods is not so much that they enrich the merchants as that they wrong the consumers. And I should admit with alacrity that in the very instances in which merchants are enriched the methods of merchandising are extravagantly costly. This of course shows that these unregulated methods can at the same time waste profusely and also enrich the dealers, doing both out of what is taken from the consumers.

¹ Referring to what Professors Fetter and Anderson had said about *laissez faire* and the specific productivity theory.

² Referring to the treatment of the doctrine of *laissez faire* in Professor Commons' presidential address.

I recall the statement made by one speaker, that he had noted down the points to be remarked upon after reading my paper in advance of its presentation here. I am, therefore, allowed to hope that no one would understand me to say that the problem of production has been fully, finally, or adequately solved, after hearing the emphasis with which I read the statement that "the problem of production we have *measurably* solved," and that "the development of production is no longer our *prime* need."

Whether the specific productivity theory is already dead, as one speaker has declared, or whether it is thoroughly alive, as the other emphatically asserts, I venture to hope that after further considering what I have said you will agree that it *ought to be dead*. It is still in textbooks used in American colleges as the definitely elaborated or the implicit foundation of the theory of distribution. Nothing has been said tonight to invalidate either the three main propositions of my paper or my objections to the specific productivity theory. So far as anyone has shown there seems to be no objection to my distinction between, on the one hand, what a factor in industry *conditions* and can prevent by its withdrawal and demand as the price of its participation and, on the other hand, what it actually *produces*; or to my contention that what labor produces when using only no-rent land or no-rent machinery is no fair test of what it normally produces and should receive, and that present theories of rent, interest, and wages, while they do *explain* what happens, do not even by implication *justify* what happens.

The world is indebted to the economists for an achievement of very great practical and scientific importance in that they have shown what must take place if economic tendency operates uncontrolled. And here there appears to be no argument against the further conclusion that this which must take place under unregulated economic tendency, instead of being that in which we must and should acquiesce, is that in which we need not, and in which as just and courageous men we can not, acquiesce.